

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

GAXH	MOTION <i>Brandon</i>
	SECOND <i>Taylor</i>
	ACTION APPROVED BY THE REGEN
NOTE:	JUL 21 2005

Subject: Alternative Asset Commitment

Action Requested: Approval of Embarcadero Capital Investors Two, L.P.

Background and Summary: We recommend a commitment of \$20 million to Embarcadero Capital Investors Two, L.P., a real estate fund that will invest in office properties primarily in California. The target capitalization of the fund is \$200 million.

Embarcadero Capital Partners was formed in 2003 by John Hamilton and Eric Yopes. Prior to 2003, Hamilton spent time with Cornerstone Properties, a U.S. office REIT, and William Wilson & Associates, a former University real estate manager. Eric Yopes spent sixteen years with the Shorenstein Company, a current University real estate manager. This will be the firm's second fund.

Embarcadero intends to continue the firm's strategy to acquire quality office properties in strong locations primarily in California. They will target properties that can be acquired at below market prices because they suffer from undercapitalized or dysfunctional owners, are overleveraged or have above market debt, are owned by corporate owners seeking to dispose of excess facilities, or are owned by REITs that are shedding non-core assets. The properties will be ones that, even in down markets, tenants want to be located in due to location and quality. Embarcadero will add value through proactive management of operations and leasing, hold the properties for income as leasing markets improve, and then sell the properties as stabilized assets to core buyers. Average hold periods for the assets are likely to be four to five years and it is expected the portfolio will be diversified between northern and southern California.

Embarcadero has built an extensive network on the West Coast giving them a competitive edge for deal flow. As a result, three of the eight transactions in Fund I were off market deals and the remaining five had limited bidders. In addition, Embarcadero has developed a reputation for rapid decision making, extensive due diligence capabilities and the ability to close quickly which often makes them the buyer of choice, particularly when deals have fallen apart with early bidders.

This investment fits within the University's real estate strategy to invest with experienced managers who have demonstrated an ability to add value.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

July 2005